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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003817

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [EPET](#) [IZ](#)
SUBJECT: IRAQ-IRAN OIL TRADE

REF: A. A) EMAIL BAGHDAD DCM TASKING #3750
[1](#)B. B) BASRAH 109

Classified By: CETI AMBASSADOR CHARLES RIES, reasons 1.4 b and d

[1](#)1. (C) SUMMARY: Iraq's oil trade with Iran at present is composed mainly of legitimate imports of refined fuels, and seems to represent Iraq's attempt to address consumer demand rather than Iran's attempt to exert economic power over Iraq. The proposed Iraq to Iran crude oil pipeline may, however, represent not-so subtle attempts by the Iraqi leadership to curry favor with Iran, since it makes only limited economic sense for either oil-producing country. END SUMMARY

Iraq is importing fuel

[1](#)2. (C) We spoke with Deputy Oil Minister Shamma on November 18 to inquire about the extent of Iran/Iraq oil trade. Shamma confirmed that Iraq is importing kerosene (and to a much more limited extent LPG) to cover its shortages in the central part of the country. Iraq's southern and northern refineries are able to produce enough kerosene for their respective regions, but Baghdad is generally cut off from product supply due to pipeline interdictions. Iran is the closest provider of fuel to Baghdad, although Shamma noted that he understands the kerosene is largely just passing through Iran from countries to the east, since Iran itself faces fuel shortages (especially for gasoline). Iraq needs the kerosene to address winter heating demand, and imports the LPG for consumer cooking needs.

[1](#)3. (SBU) According to tender documents posted by the Ministry of Oil, Iraq awarded a tender of 18.6 million liters of kerosene from Iran via Muntheriyah for Diyala province for the period of August 1 to December 31; a tender of 93 million liters of kerosene and 75,000 metric tons of LPG from Iran via Mehran-Zurbatiyah for Baghdad and al Kut for the same time period; and a tender of 124 million liters of kerosene via Al-Zhubayr in the south for the period of September 1 to December 31. Iraq consumes about 14 million liters of kerosene a day, but only produces about 5 million liters in its domestic refineries. The target daily supply level for LPG is 4750mt, but Iraq produces only about 2200mt per day.

Iraq is building at least one pipeline to Iran

[1](#)4. (C) We also spoke with Falah al-Khawaja, Director General of the operating company State Company Oil Projects (SCOP) on November 18. Falah recounted how the project to build a pipeline from Basra, Iraq to the Abadan refinery in Iran has been floating around for two years, with South Oil Company as the presumed lead company. On August 10, 2007, Prime Minister Maliki and Oil Minister Shahrastani visited Tehran,

and the next thing Falah knew, Shahrستاني telephoned him to say that he had signed a Memorandum of Agreement (MOA) with Iran to build two pipelines - one for crude oil to be sold at market prices from Basra to Abadan, and one for refined fuels to be sold at market prices from Iran to Iraq. Shahrستاني also told Falah that he was putting Falah in charge of the projects. Falah said he accepted on one condition: that contrary to what the Iranians proposed, Iraqis build the part of the pipeline lying within Iraqi boundaries, as it has done in all other circumstances. Last month, the Iranians showed up in Baghdad with a contract in which they would be responsible for building the whole project, but Falah refused to sign it, preferring a simpler MOA to a contract, and for construction in Iraq to be performed by Iraqis. He insisted that he is a technocrat, not a politician, implying the pipelines are political projects. He expects the project can be completed in a mere seven months.

15. (C) When we asked Oil Minister Shahrستاني about the project in August, he explained that it is a way to export more crude oil to international markets, since the Al Basra Oil Terminal (ABOT) is at capacity. He said the plan was to push Iraqi crude into the nearby Abadan refinery and export an equivalent amount of Iranian crude (that otherwise would have been used at Abadan) through Iranian export terminals further south on the Persian Gulf. Shahrستاني stated the Iraqi crude exported under this swap arrangement would be priced at the regular Iraqi term contract formula. He also argued the export pipeline to Iran would provide a measure of energy security, should ABOT fail for any reason.

16. (SBU) In October, a US Army Corps of Engineers contractor spoke in Amman with Asri Mousa, the planning manager for the South Oil Company. Mousa said SOC avoids political projects

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and the pipeline project was considered a political project. SOC did not support it since there is not a good economic reason for doing it. He also confirmed it is being managed by SCOP.

17. (C) Separately, Shamma confirmed that the project for a pipeline for refined fuel from Iran is no longer on the table. Iran's fuel shortages make the project impossible.

Crude and Product Smuggling is Likely

18. (C) In a conversation on November 18, Abdullah Iskandar Habib al-Jibouri, a member of the Oil & Gas Committee of the Council of Representatives (Sunni, Al-Watan (Homeland) Party, Liberation and Reconciliation Bloc), told us that crude oil smuggling continues from southern ports such as Abu Floos, in small Iraqi-flagged vessels that change to Iranian flags once at sea and then load onto Iranian tankers with the crude sold as Iranian crude. This had been going on since the sanctions period with the knowledge of both the Saddam regime and the Iranian government as a way to avoid sanctions. It continues as a criminal enterprise. (NOTE: al-Jibouri estimated that up to 300,000 barrels per day are smuggled in this fashion, but this strikes us as a physical impossibility in small boats through the shallow waters of the Shatt al Arab. END NOTE)

19. (C) Crude oil smuggling also may be occurring all along the Iran/Iraq land border, although most trade is probably refined products in both directions for black market customers. Such smuggling is likely motivated less by a desire to exert economic influence in Iraq than criminal opportunism.

COMMENT

110. (C) Since Iraq is an oil-producing country, it makes little sense to suppose Iran would acquire disproportionate economic influence by supplying Iraq crude oil or products, via legitimate commercial transactions or otherwise. The new

export channel (the crude oil pipeline to Abadan) is significant less as an export route than as a way to facilitate off-budget Iranian funding of Iraqi political and economic figures.

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